

MR. ISMAY: Thank you, Mr. Chairman.

During the next few minutes, I will highlight a Canadian program known as Industrial and Regional Benefits, or IRB.

And in the interest of being the last speaker, and in the interest of needing to catch an airplane, I have edited my written remarks. I stand with them, but I have edited them for brevity.

To begin, I will provide definitions that are unique to this subject.

First, in a broad or global sense, the word offset or offsets, refers to reciprocal economic benefits that result from trade arrangements.

Second definition: A U.S. interagency group has adopted a more narrow definition of offsets. It is as follows:

Offsets are industrial compensation practices required as a condition of purchasing defense articles and services as they are specified in the International Traffic in Arms Regulations.

Third, and most importantly, Industrial and Regional Benefits is the name of the Canadian offsets program which obtains industrial benefits from defense

companies and directs a portion of those benefits to small businesses and lesser-industrialized regions in Canada.

Next I'd like to give a few highlights of Canada's procurement policy. And this is appropriate, because procurement policy in Canada is linked to the IRB policy.

When a defense procurement has a value of 2 million Canadian dollars or more, procurement preference is given to bids containing IRB commitments.

And when the procurement value reaches \$100 million Canadian, IRB commitments must equal 100 percent of procurement value.

In the selection of sources to supply Canada's defense equipment and services, IRB bids are important, along with such factors as technical specifications, price, and delivery.

Canadian procurement policy, furthermore, gives preference to Canadian firms over foreign bidders.

Next in preference are Canadian firms acting as agents or prime contractors for foreign companies.

This system encourages foreign firms to establish teaming agreements, joint ventures, or production facilities in Canada. And we just heard some comments about the production facilities being transported over to Canada.

Lowest preference is given to foreign firms that have neither an affiliate relationship with a Canadian firm nor a production facility in Canada.

The Department of Public Works and Government Services has overall responsibility for defense procurements.

However, the procurement policy also involves other agencies. For example, the Department of Industry, Science and Technology, in conjunction with designated regional agencies, evaluates the benefits and risks associated with IRB bids.

The Department of Foreign Affairs and International Trade approves bids based on foreign relations policy.

And the ultimate authority on major defense procurements is the Canadian Cabinet, through its Committee on Foreign & Defense Policy.

Next I will briefly highlight the IRB program itself.

Industry Canada administers the IRB program. It is an organization jointly governed by the Minister of Industry, the Secretary of State, and the Parliamentary Secretary to Industry Canada.

IRB projects may include but are not limited to the following: technology transfers, joint ventures, investments, production mandates, and access to international markets.

IRB projects, regardless of type or description, are governed by the following mandatory requirements:

First, IRB projects must be clearly caused by the relevant Canadian procurement process.

Second, IRB projects must be new activities.

Third, IRB projects must be completed within a specified date and not later than the final performance date that is established under the procurement agreement.

The following data on Canadian IRB programs is contained in a U.S. Department of Commerce report dated October 1999:

It uses the narrow definition of offsets, namely that offsets are required as a condition of procurement of defense articles and services.

The data during a period of five years, 1993 through 1997, indicates that IRB agreements supported 14 sales for U.S. defense firms. These sales contracts totaled \$277 million U.S., and they were supported by IRB agreements equal to 80 percent of those sales, or \$221 million U.S.

The \$221 million in offsets did increase U.S. foreign deficits. However, over a period of 60 months, those offsets and deficits averaged only \$3.7 million per month.

Shifting briefly to the U.S. Government's involvement in offsets, there are three items that I would like to bring to your attention.

First, the U.S. Government's policy neither requires nor prevents U.S. companies from engaging in offsets.

Second, the Commerce Department's Bureau of Export Administration collects data on offsets and reports annually to Congress on the impact of offsets on U.S. defense preparedness, industrial competitiveness, employment, and trade.

Third, an interagency offset steering committee is conducting a series of discussions with U.S. allies on defense offsets.

It has already had a discussion with Canada, and it plans to hold offset discussions with each of the 21 countries that have signed memoranda of understandings with the U.S. on reciprocal defense procurement.

This interagency offset steering committee is chaired by a Department of Defense representative, and it includes representatives from the Department of Commerce, Department of State, Department of Labor, and the U.S. Trade Representative.

In conclusion, Mr. Chairman, I would like to offer a few brief personal remarks.

First, U.S. defense companies proffer offsets when deemed appropriate to gain acceptance in important markets or to promote important sales.

Second, U.S. defense companies usually comply with offsets which are required as a condition of bidding and selling.

Third, U.S. defense companies would welcome the universal elimination of all offset requirements. However, they consistently request the U.S. Government to refrain from bilateral negotiations that would restrict or preclude offsets.

The reason is that bilateral agreements would very likely result in the loss of U.S. sales to foreign competitors.

Presumably bilateral offset agreements would not apply equally or similarly to competitors from other countries, thus the loss of sales.

Fourth, although the primary benefit of offsets is winning foreign sales, there are secondary benefits of the offset process, such as finding qualified foreign subcontractors or finding foreign companies that will market products manufactured by U.S. companies.

Finally, U.S. offsets in Canada, which averaged \$3.7 million per month between 1993 and 1997,

are very small relative to total U.S. trade deficits that currently exist.

Mr. Chairman, I thank you for the opportunity to highlight Canada's IRB program.